

PROPOSED RESOLUTION

Resolution W-5066
DWA

AGENDA ID #14283

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION W-5066
October 1, 2015

RESOLUTION

**(RES. W-5066) PENNGROVE WATER COMPANY ORDER
AUTHORIZING A SURCHARGE OF \$0.438/CCF, ADDED TO THE
QUANTITY CHARGE ON MONTHLY BILLS FOR PENNGROVE
TOWN DISTRICT, FOR A DURATION OF 12 MONTHS TO RECOVER
THE LOST REVENUE MEMORANDUM ACCOUNT AND
PURCHASED WATER BALANCING ACCOUNT.**

SUMMARY

By Advice Letter 93, filed on August 21, 2015, Penngrove Water Company (Penngrove), a Class C water utility, seeks to recover the lost revenues as a result of Penngrove's implementation of Rule 14.1, Voluntary Water Conservation and Mandatory Rationing Plan, as recorded in its Lost Revenue Memorandum Account¹, from July 1, 2014 through June 30, 2015. Penngrove also seeks to recover lost revenues from increased purchased water costs as recorded in its Purchased Water Balancing Account², for a total combined surcharge of \$0.42/CCF, to be recovered over 12 months, applicable to the Penngrove Town District.

This Resolution grants a surcharge of \$0.438/CCF, after review by the Division of Water and Audits, applicable to the Penngrove Town District, to be recovered over 12 months, for Penngrove Water Company to recover the lost revenues and

¹ By Advice Letter 89, effective June 25, 2014, the Commission granted Penngrove the establishment of a Lost Revenue Memorandum Account.

² By Resolution No. W-4467, effective April 22, 2004, the Commission allowed all water and sewer utilities to track unrecovered purchased water expenses in the Purchased Water Balancing Account.

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increased operational costs incurred in the Lost Revenue Memorandum Account and the Purchased Water Balancing Account.

BACKGROUND

Penngrove has requested authority under General Order (G.O.) 96-B and Section 454 of the Public Utilities Code to increase rates to recover the lost revenues and increased operational costs incurred in its Lost Revenue Memorandum Account (LRMA) and Purchased Water Balancing Account (PWBA).

Penngrove's present metered rates for Penngrove Town District became effective on July 1, 2015 by approval of Advice Letter (AL) 92, which authorized a purchased water expense offset. Penngrove's last general rate increase was authorized by Resolution W-4917, dated June 7, 2012.

AL 89, effective June 25, 2014, authorized Penngrove to establish a LRMA to track and recover the lost revenues for Penngrove, as a result of implementation of Rule 14.1, Voluntary Water Conservation and Mandatory Rationing Plan. Similarly, AL 76, effective September 24, 2010, allowed Penngrove and all water and sewer utilities to establish PWBA's to account for changes in the cost of purchased water, as authorized by Resolution No. W-4467.

The lost revenue in the LRMA from July 1, 2014 through June 30, 2015 was recorded in Penngrove's ledger in the amount of \$16,774, while the unrecovered balance in the PWBA Penngrove ledger is \$10,239, for a total requested recovery of \$27,013 for Penngrove.

NOTICE AND PROTESTS

AL 93 was served on August 21, 2015, in accordance with the provisions of G.O. 96-B. Industry Rule 3.1 provides for notice to customers by publishing a legal notice in a newspaper of general circulation in the area. A notice of the proposed change has been published in the Press Democrat, a newspaper of general circulation in Sonoma County.

No protests have been received.

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DISCUSSION

By AL 93, filed on August 21, 2015, Penngrove seeks to recover the lost revenues and increased operational costs, as a result of Penngrove's implementation of Rule 14.1, Voluntary Water Conservation and Mandatory Rationing Plan which Penngrove recorded in its LRMA from July 1, 2014 through June 30, 2014. Penngrove also seeks to recover lost revenues from increased purchased water costs as recorded in its PWBA recorded from July 2013 to June 2014.

The increase requested herein is for the purpose of recovering through a surcharge, on a dollar-for-dollar basis, the lost revenues and increased operational costs which Penngrove recorded in its LRMA and PWBA. The LRMA was established on June 25, 2014 by approval of AL 83, while the PWBA was established on September 24, 2010 by approval of AL 76.

When a utility seeks recovery of costs recorded in a memorandum account, it has the burden to meet the following standards:

- 1) The utility acted prudently when it incurred these costs;
- 2) The utility paid reasonable amounts for these costs;
- 3) The memorandum account costs are not covered by other authorized rates; and
- 4) It is appropriate for ratepayers to pay for these costs in addition to otherwise authorized rates (see e.g., Ordering Paragraph 5 of Resolution (Res.) W-4824.)

Based on the requirements discussed above, the Division of Water and Audits (DWA) finds that Penngrove acted prudently in incurring the lost revenues recorded in its LRMA. These costs were incurred in order to track cost savings associated with lower sales as well as increased operational costs and violation fines, penalties, and/or surcharges collected from implementing Rule 14.1, Voluntary Water Conservation and Mandatory Rationing Plan.

With respect to the second standard, DWA reviewed the lost revenues recorded in Penngrove's ledger as provided to DWA, and determined that the revenues should be \$16,895, as opposed to Penngrove's requested amount of \$16,774. DWA has found Penngrove's LRMA expenditures to be prudent and reasonable.

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With respect to the third standard discussed above, DWA has reviewed Penngrove's last GRC, authorized on June 7, 2012, (see Res.W-4917), and has ascertained that Penngrove could not have anticipated the lost revenues as a result of implementation of Rule 14.1, Voluntary Water Conservation and Mandatory Rationing Plan. The expenditures accrued in its LRMA could not have been included in the utility's previously authorized rates. Therefore, Penngrove did not receive revenues for the recently incurred expenses accrued in its LRMA. Accordingly, recovering these expenses now would not amount to double recovery and is reasonable.

DWA finds it appropriate for ratepayers to pay for these costs, since these costs were accrued to provide ratepayers with water service and keep the company running, thereby ensuring that the utility has a reliable and sufficient water supply, which is beneficial to its customers. Accordingly, it is appropriate for ratepayers to pay for this category of costs in addition to otherwise authorized rates and, therefore, Penngrove meets the fourth standard discussed above.

In addition to the recovery of the LRMA, DWA reviewed invoices from Sonoma County Water Agency to confirm increases in purchased water costs as recorded in Penngrove's PWBA. DWA reviewed Penngrove's calculations used to determine Penngrove's proposed recovery of the PWBA, and determined that the revenues should be \$11,067, as opposed to Penngrove's requested amount of \$10,239. DWA finds that the recovery of the PWBA is reasonable and just.

DWA recommends that Penngrove recover a total of \$27,962 for lost revenues from the LRMA and increased purchased water costs from the PWBA.

To minimize the impact of this amount on ratepayers, the surcharge has been spread over 12 months for Penngrove. Per guidance in Standard Practice U-27-W, Rule 64b, memorandum account amortization surcharges are to be spread over one year for under-collections below 5% of gross revenues.

The sum of \$27,962 is less than 5% of the current gross revenue of \$791,194 from July 1, 2014 to June 1, 2015 for Penngrove Town District. Therefore, DWA recommends a surcharge of \$0.438/CCF, for a period of 12 months, for Penngrove. This surcharge will not result in a rate of return greater than the last authorized rate of return for Penngrove.

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Penngrove should be permitted to transfer the amounts recorded in its LRMA to a balancing account for recovery. Penngrove should be permitted to recover the amounts in the LRMA balancing account and PWBA by imposing a combined surcharge of \$0.438/CCF, for a period of 12 months.

COMMENTS

This is an uncontested matter that pertains solely to a water corporation. Accordingly, pursuant to Public Utilities Code Section 311(g)(3), this resolution is exempt from the 30-day period for public review and comment.

SAFETY

The resolution provides adequate revenues to the utility so that it can provide safe and reliable water service to its customers. The water served by the utility meets all applicable primary water quality standards set forth by the State Water Resources Control Board.

COMPLIANCE

There are no outstanding Commission orders requiring system improvements. The utility has been filing annual reports as required.

FINDINGS

1. Penngrove Water Company (Penngrove) seeks to recover the lost revenues and increased operational costs as a result of its implementation of Rule 14.1, Voluntary Water Conservation and Mandatory Rationing Plan, as recorded in its Lost Revenue Memorandum Account (LRMA) and Purchased Water Balancing Account (PWBA). The LRMA and PWBA were established on June 25, 2014 by approval of AL 83 and September 24, 2010 by approval of AL 76, respectively.
2. By Advice Letter (AL) 93, filed on August 21, 2015, Penngrove seeks to recover the lost revenues and increased operational costs which Penngrove recorded in its LRMA from July 1, 2014 through June 30, 2015 and the increased purchased water costs recorded in its PWBA from July 2013 to June 2014.

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3. Penngrove incurred and recorded in the LRMA from July 1, 2014 through June 30, 2015 and the PWBA, a total amount of \$27,013.
4. The Division of Water and Audits (DWA) reviewed Penngrove's requested recovery of \$27,013, and found several errors in Penngrove's Workpapers. DWA recommends a recovery of \$16,895 and \$11,067 for Penngrove's LRMA and PWBA, respectively, for a total of \$27,962.
5. The expenses recorded in Penngrove's LRMA and PWBA are prudent, reasonable, and not covered by other authorized rates. Also, it is appropriate for ratepayers to pay for these costs in addition to otherwise authorized rates.
6. Penngrove could not have reasonably anticipated these expenses in the LRMA in its last general rate case, which became effective on June 25, 2014.
7. It is appropriate for ratepayers to pay for these costs, since these costs were accrued to provide water service to ratepayers, which is beneficial to its customers.
8. AL 93 was served on August 21, 2015, in accordance with the provisions of General Order (G.O.) 96-B.
9. Industry Rule 3.1 provides for notice to customers by publishing a legal notice in a newspaper of general circulation in the area. A notice of the proposed change has been published in the Press Democrat, a newspaper of general circulation in Sonoma County. No protests have been received.
10. Penngrove should be permitted to transfer the amounts in its LRMA to a balancing account for recovery.
11. Penngrove should be permitted to recover the transferred LRMA amount in the balancing account and the PWBA by imposing a surcharge of \$0.438/CCF, for a period of 12 months, for Penngrove Town District customers.
12. This surcharge will not result in a rate of return greater than the last authorized for Penngrove.

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THEREFORE IT IS ORDERED THAT:

1. Penngrove Water Company is permitted to transfer the amount of \$16,895, in its Lost Revenue Memorandum Account to a balancing account for recovery over a period of 12 months and recover the amount of \$11,067 from its Purchased Water Balancing Account for a total of \$27,962 combined. Accrued interest at the 90-day commercial paper rate may be added on the uncollected amounts from the effective date of this Resolution.
2. Penngrove Water Company is permitted to recover the transferred LRMA amounts in the balancing account reflected in Ordering Paragraph 1 above and the amounts in the PWBA by imposing a combined surcharge of \$0.438/CCF, for a period of 12 months.
3. Penngrove Water Company shall track the revenue from a surcharge of \$0.438/CCF, for a period of 12 months, reflected in Ordering Paragraph 2 above in a balancing account and account for any over or under collected revenues in its next general rate case.

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4. Authority is granted under Public Utilities Code Section 454 to Pennngrove Water Company to file a supplemental advice letter with the revised surcharge rate schedules and concurrently cancel its presently effective Schedule No. P-1, Metered Service. The effective date of the revised rate schedules shall be five days after the date of filing.
5. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at the Public Utilities Commission of the State of California on October 1, 2015; the following Commissioners voting favorably thereon:

TIMOTHY J. SULLIVAN
Executive Director

PENNGROVE WATER COMPANY
ADVICE LETTER NO. 93
SERVICE LIST

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